

DEPARTMENT OF THE NAVY

**PERFORMANCE MANAGEMENT UNDER THE NATIONAL SECURITY PERSONNEL
SYSTEM (NSPS)**

INTERIM GUIDANCE

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References: (a) Title XI, U.S.C. Chapter 99
 (b) 5 CFR Chapter XCIX and Part 9901
 (c) DoD 1400.25-M, DoD Civilian Personnel Manual,
 Subchapter 1940, "Performance Management"
 (d) DoD 1400.25-M, DoD Civilian Personnel Manual,
 Subchapter 1930, "Compensation Architecture
 Pay Policy"

Cancellation: None. DON CHRM, Subchapter 430.1, "DON Performance Management Programs" of October 2005, and DON CHRM, Subchapter 432.1, "Actions Based on Unacceptable Performance" of August 2005, do not apply to employees covered by the National Security Personnel System performance management program.

1. **Purpose**. This guidance provides policy and assigns responsibility for implementing and operating the National Security Personnel System's (NSPS) performance management program as authorized by and in compliance with references (a) through (d). This guidance must be read in conjunction with references (c) and (d).

2. **Policy**. It is the policy of the DON to rate and reward performance commensurate with an employee's accomplishments in support of organizational goals and objectives. The NSPS performance management program will allow DON to attract and retain the right kind of capabilities and talents, enhance our National defense capabilities, and ensure the mission of the DoD and DON is executed most effectively.

3. **Applicability**. This guidance applies to employees covered by NSPS per reference (c).

4. **Definitions**. See reference (c), paragraph SC1940.3.

5. General Roles and Responsibilities.

a. The Assistant Secretary of the Navy (Manpower and Reserve Affairs) (ASN (M&RA)) has responsibility under 10 U.S.C. § 5016 for all matters relating to personnel within the DON and has redelegated the responsibility to develop and administer personnel policy to the Deputy Assistant Secretary of the Navy (DASN) for Civilian Human Resources (CHR). The ASN (M&RA) is responsible for the development and issuance of policy and evaluation of the DON's implementation of the NSPS performance management program which responsibility is re-delegated to the Deputy Assistant Secretary of the Navy (Civilian Human Resources) (DASN (CHR)).

b. The Deputy Assistant Secretary of the Navy (Civilian Human Resources) (DASN CHR) is responsible for the development and issuance of DON performance management policy and management and evaluation of the DON performance management program. The DASN (CHR) provides authoritative advice to the Chief of Naval Operations (CNO), the Commandant of the Marine Corps (CMC), the Assistant for Administration, Under Secretary of the Navy (AAUSN) and heads of Echelon 1 and 2 commands reporting to the CNO and CMC on performance management matters arising under references (a) through (c).

c. The Chief of Naval Operations, the Commandant of the Marine Corps, the Assistant for Administration, Under Secretary of the Navy, and heads of Echelon 2 commands are responsible for ensuring implementation of this guidance throughout their organizations and for issuing necessary supplemental policy, procedures, and guidance consistent with the present (and future) policy established by higher authority.

d. Heads of naval activities and Marine Corps commands employing civilian personnel are responsible for:

1) Ensuring this guidance and references (a) through (d) are applied to covered civilian employees under his or her chain of command in accordance with major command policies.

2) Issuing supplemental local procedures and guidance to supplement this guidance and other guidance of higher authority.

e. Human Resources Service Centers. Servicing Human Resources Services Centers (HRSCs) will provide any necessary

assistance to Human Resources Offices, employees and managers of activities/commands they support.

f. Human Resources Offices. Servicing Human Resources Offices (HROs) will provide advice, guidance, and any necessary assistance to employees and managers of activities/commands they support.

g. Performance Review Authority (PRA). The PRA provides oversight of one or more pay pools and addresses the consistency of performance management policies within a major command, field activity, or other organization. The PRA oversees the management of all the combined aspects of performance management and pay administration operations within the organizations and/or communities assigned under their purview as established by charter by Echelon 1 and 2 commanders. See reference (c), paragraph 1940.4.1 and 1940.11.6.

h. Pay Pool Manager (PPM). The PPM is responsible for final approval of the distribution of ratings and payouts and administration of the policies and procedures of the PRA for their assigned workforce population. See reference (c), paragraphs SC1940.4.2 and SC1940.11.5.

i. Pay Pool Panel (PPP). The PPP member is responsible for representing their assigned population during the conduct of pay pool panel performance review meetings, seeking consensus in the recommendation to the PPM of final ratings of record, share distribution, and payout allocations. If the PPP deliberation process dictates a change to recommendations the PPP members will communicate the new ratings of record, share distribution, and/or payout allocations to the Rating Official of record. The Rating Official will be afforded the opportunity to provide further justification before the change(s) become final and are implemented. If the PPP deliberation process does not result in consensus the PPM will make the final decision and change(s), if any, will be reconciled as directed by the PPM. See reference (c), paragraphs SC1940.4.3 and SC1940.11.4.

j. Supervisors. Supervisors are charged with the responsibility, and will be held accountable, for effectively managing the performance of assigned employees to include but not limited to:

(1) Executing the requirements of this guidance in a manner consistent with merit system principles;

(2) Ensuring employees are trained in the performance management system;

(3) Clearly communicating performance expectations and holding employees responsible for accomplishing them;

(4) Aligning performance expectations and employee development with organization mission and goals;

(5) Developing written job objectives reflective of expected accomplishments and contributions for the appraisal period and identifying applicable contributing factors;

(6) Explaining to employees that conduct will be considered when evaluating their performance, both conduct that would raise the level of performance and conduct that would lower the level of performance;

(7) Providing employees meaningful, constructive, and candid feedback relative to performance expectations, including at least one documented interim review;

(8) Ensuring employees are aware of the opportunity to provide a self-assessment;

(9) Fostering and rewarding excellent performance;

(10) Addressing poor performance;

(11) Making meaningful distinctions among employees based on performance and contribution;

(12) Completing closeout assessments, early annual recommended ratings, and special purpose ratings, as appropriate, and within deadlines established by pay pool/local policy.

(13) Assuring that eligible employees are assigned a rating of record as prescribed by this guidance; and

(14) Forwarding recommended ratings of record, numbers of shares, and payout allocations to the pay pool.

(15) Communicating approved ratings, share assignment, and payout allocation to employee under his/her supervision.

k. Employees. Covered employees are encouraged to:

(1) Engage in dialogue with supervisors to develop job objectives and identify associated contributing factors;

(2) Provide timely feedback to supervisors in sufficient detail. Feedback should include communicating individual accomplishments and shortfalls, or anticipated shortfalls, in meeting performance expectations. Employees should discuss major impediments and/or constraints relative to meeting their performance expectations well before performance may be determined deficient. Employees are also encouraged to provide feedback on performance enhancements that could be implemented, developments or changes in the work environment that may assist in setting or achieving their job objectives, or to suggest methods whereby they may contribute more fully to overall organizational effectiveness.

(3) Identify and record their accomplishments and results throughout the appraisal period;

(4) Participate in interim reviews and the end-of-year assessments, including the self-assessment;

(5) Understand the link between their performance expectations, conduct, and organizational mission and goals.

(6) Assume individual responsibility for career development and advancement by proactively seeking workplace developmental opportunities, accepting challenges, and undertaking self-development activities to enhance their ability to more effectively contribute to mission accomplishment.

6. **Setting Performance Expectations**. To provide effective performance management within an organization, it is imperative that employees understand the value and contribution that their individual performance has on achieving organizational goals and objectives. To that end, job objectives, which are set in performance plans, will express performance expectations that are aligned with the higher-level goals of the organization.

a. Performance expectations. See paragraph SC1940.5 of reference (c).

(1) Setting expectations. Supervisors should involve employees, insofar as practicable, in the development of their performance expectations, including job objectives and the identification of applicable contributing factors. At a minimum, supervisors should ensure that covered employees are afforded an opportunity to provide feedback before final approval of their performance plan. Normally, this process should include at least one face-to-face discussion between the supervisor and employee. Final decisions for the establishment and content of such plans, including setting performance expectations, job objectives, and associated contributing factors, are within the sole and exclusive discretion of management.

(2) Establishing performance plans. As required by paragraph SC1940.5.6 of reference (c), every eligible employee will be issued a performance plan that is subjected to higher-level review before approval. Content of performance plans is not grievable under administrative procedures. Every effort should be expended to ensure that performance plans are set, issued and executed within 30 days of the beginning of the performance rating cycle. Pay pool managers or higher authority may grant extensions for up to 60 days (i.e., up to a total of 90 consecutive days from the beginning of the cycle).

(3) Adjusting performance expectations during the appraisal period. Performance expectations may be adjusted at any time. Adjustments in performance expectations should be promptly and clearly communicated. There is no required minimum period of time an employee must be under notice of an adjusted performance expectation before the employee may be held accountable for meeting a communicated adjustment. When adjusted performance expectation(s) are reflected through changes in an employee's performance plan, the requirements of paragraph SC1940.5.5 of reference (c) and this guidance for communicating, monitoring, and assessing the new expectation(s) must be followed. Reasons for adjusting the content of a performance plan may include conditions that change beyond the employee's ability to control or influence, complexity of the job objective or resources to complete the objective were underestimated, change in the organization's staffing, structure, or priorities, etc.

b. Job objectives and contributing factors. See reference (c), paragraph SC1940.5.7.

(1) At least one, and generally three to five job objectives, will be contained in the performance plan.

(2) Job objectives must be sufficiently specific in nature (e.g., not a listing of general responsibilities and/or duties) and also comprehensive enough to normally span the entire rating period or a substantial portion thereof. Job objectives should relate expected performance outcomes to the salary range being paid.

(3) Commands/activities may develop supplemental guidance and examples for supervisors to ensure consistency within pay pools in relating salary ranges within a pay band, to the duties, responsibilities, and expected performance outcomes for specified job objectives.

(4) Job objectives may be weighted in no less than 5 percent increments to reflect relative priority, contribution to mission, complexity, or difficulty. No objective may be weighted less than 10 percent and all weighted job objectives must total 100 percent. Weighting of job objectives should not be based on the strengths or weaknesses of the employee performing the objective, rather the relative priority or importance of the objective itself. The supervisor should balance, and communicate to the employee, the weighting of objectives such that the employee does not develop the perception that lower weighted objectives are not important to mission accomplishment, or insignificant to the final performance rating. See Appendix D, "Averaging Procedure for Weighted Adjusted Ratings" of this guidance.

(5) New job objectives may be assigned to employees as needed during the performance period. Reasons for adding new objectives may include reassignment to a new position or job, completion of an assigned objective, promotion, the assignment of additional duties or responsibilities, or for other reasons resulting from change in organizational/mission focus. The impact on weighting of existing and new job objectives must be carefully considered when adding or adjusting job objectives.

(6) Each performance plan for supervisors must contain at least one supervisory job objective per paragraph SC1940.5.7.3 of reference (c). The "Leadership" contributing factor must be selected for the supervisory job objective.

(7) Generally, no more than three contributing factors should be identified for each job objective. The contributing factors that most directly impact the accomplishment of the objective, rather than the strengths or weaknesses of the employee performing the job, should be selected. For example: A scientist with a weakness in verbal communication skills who is assigned to work primarily alone is assigned a job objective to develop and test a specific conceptual idea and prepare a comprehensive written recommendation for future applications. Although the scientist must occasionally communicate progress verbally to his supervisors and peers, such communication is not one of the most essential factors that will impact accomplishing the objective. The supervisor should not select the contributing factor "Communication".

c. Special Matters to be considered in performance evaluations. Supervisors should ensure employees are aware of performance expectations that law, regulation and policy require to be considered in performance appraisal evaluations. See Appendix A.

7. **Monitoring Performance.** See reference (c), paragraph 1940.6

a. Dialogue and feedback. Supervisors must assess the performance of their employees on a regular basis so they can provide feedback that is specific, fair, accurate, addresses recent performance, and helps employees accomplish their jobs within the job objectives and performance expectations they have been assigned. This enables supervisors to stay attuned to each employee's progress and, if necessary, adjust performance expectations to achieve more realistic or attainable goals. Supervisors should use routine interactions between employees and other supervisors and managers to generate valuable feedback. Timely and specific feedback should be built into routine meetings, memos, e-mail, voice mail, short notes or letters and through daily dialogue.

b. Interim Review. At least one formal interim review will be conducted and documented at least once midway through the appraisal period. The review should emphasize performance strengths and primarily focus on future performance. Areas where improvement is needed, if any, should also be communicated. In particular, any concerns about personal conduct should be documented in the interim review to ensure the employee understands that conduct may be factored into his/her rating of record. Normally, interim reviews will be conducted

as part of a face-to-face discussion. Other verbal means such as teleconference or videoconference are allowed if circumstances dictate (e.g., geographic separation, etc.). Interim reviews do not require the assignment of rating levels; however, the supervisor and employee must sign and date the performance plan to indicate that the review was conducted. Employees will be provided a copy of the interim review. Supervisors will record the receipt of the interim review and the manner in which it was communicated. Interim reviews are to be considered in determining the annual rating of record.

c. Closeout Assessments. Requirements for conducting closeout assessments are set forth in paragraph SC1940.6.5 of reference (c). Closeout assessments are a narrative discussion of performance relative to progress in accomplishing the assigned job objectives and should not provide numerical scores or discuss share distribution.

8. Developing Performance. Developing performance is an ongoing, integrated step within the performance management process. The means of developing employee performance depends on the developmental stage of the employee, availability of developmental opportunities, as well as the employee's unique motivations, strengths, and learning styles. The desired outcome of developing performance is a workforce that is highly motivated, consistently meeting or exceeding performance expectations, and prepared to meet future known, and unknown, mission requirements.

a. Developing employees. In addition to holding meaningful performance-related discussions and providing specific feedback that assist the employee in reinforcing strengths and correcting weaknesses, employee development opportunities should be periodically discussed. Opportunities may include classroom training, on-the-job training, mentoring, special assignments, details or reassignments, participation in professional and technical organizations, group performance meetings, process improvement teams, rotational assignments, and self-initiated development activities. These developmental opportunities are normally reflected in a long-term individual development plan.

(1) As appropriate, supervisors should encourage employees to seek professional and technical development opportunities to further enhance their contribution to the organization's mission.

(2) Supervisors may use a staff development or rotational assignment opportunities as positive reinforcement or reward for good or excellent performance.

(3) Employees should recognize that not all requested development opportunities are required to be provided by the employer, and that some opportunities may have limitations on the number of employees allowed to participate due to budget constraints or other factors such as performance. Supervisors will ensure that merit system principles are adhered to when selecting employees for limited developmental opportunities.

b. Developing employee performance. There are a number of factors associated with further developing employee performance that supervisors should consider, including:

(1) Emphasizing performance strengths. Supervisors should emphasize performance strengths during both informal and formal feedback opportunities. The supervisor may also allow the employee to choose projects or solve challenges tailored to the employee's strengths. The supervisor may also choose to partner employees with complimentary performance strengths in order to allow the employees to focus on what they do best.

(2) Delegating responsibility and ownership. As the supervisor and employee develop new performance expectations, the supervisor should take care to clearly identify who is responsible for the task/objective within the specified timeframe. The level of responsibility that is delegated should ensure that risk is appropriately managed. The supervisor should allow the employee to develop the maximum level of ownership for the successful attainment of the performance expectation. The employee should understand that he/she is responsible for the outcomes, for keeping the supervisor and others fully informed of status and progress, and communicating when objectives have been achieved.

(3) Employee engagement. Supervisors should look for opportunities to build the level of commitment of employees for the organization's mission and goals. In large part, supervisors can accomplish this by keeping the employee's development and/or career progression in mind when assigning work or planning future development opportunities. Employee engagement is enhanced when the employee believes they are working on important tasks, are able to select their tasks from available options, and/or work on the things they do best. As much as practicable, the supervisor should strive to increase

employee engagement and commitment by seeking opportunities as an integral part of assigning work and managing the organization.

9. **Addressing performance deficiencies.** Management is responsible for taking steps to promptly address deficiencies in performance or behavioral expectations.

a. Determine and clearly define the deficiency. When addressing a performance deficiency, supervisors should determine and clearly define the deficiency, identify the employee's specific work behaviors and actions that need to be changed, and talk with the employee to determine if he/she understands the expectation and whether or not the employee's skill, knowledge and/or ability are adequate to meet the expectation. Supervisors should listen to their employee's concerns and input about performance difficulties; evaluate the situation to see whether work-related obstacles are contributing to deficiencies; and consider whether the impact can be alleviated or mitigated. The supervisor should clearly communicate to the employee the specific performance expectation(s) that require improvement.

b. Consideration of circumstances. If there is some confusion or knowledge deficiency about the work expectations, supervisors should consider whether remedial assistance, such as coaching, mentoring, problem solving, closer supervision and adequate feedback, and/or remedial training would be appropriate.

c. Range of options to address performance deficiencies. Addressing and resolving performance deficiencies may incorporate one or more remedial, corrective actions. When determining what corrective action to take to address poor and/or unacceptable performance, supervisors will take into account the circumstances, including the nature and gravity of the poor and/or unacceptable performance and its consequences on mission success. Supervisors and managers have a broad range of options available to address deficiencies. Among other things, options include:

(1) Providing meaningful assistance such as remedial training, more specific guidance and/or feedback, in depth coaching, clarifying expectations, or providing mentoring.

(2) Affording an improvement period.

(3) Voluntary or involuntary reassignment.

(4) Voluntary reduction in pay and/or band.

(5) Letter of counseling.

(6) Oral or written warning.

(7) Written reprimand.

(8) Alternative Disciplinary System actions.

(9) Adverse action, such as suspension without pay, involuntary reduction in basic pay and/or pay band, or removal from the Federal service.

d. When an improvement period is afforded. There is no requirement to afford an improvement period before initiating adverse action. However, management should consider this intervention, if appropriate. Being under an improvement period has no direct bearing on eligibility for rate range adjustment or local market supplement adjustment. Those adjustments are based on the current annual rating of record at the time the adjustments are effective (which may or may not coincide with the annual performance payout).

e. When adverse action is taken. Adverse action may be taken independent of the processes and/or procedures for appraising performance. For example: A file clerk with four years of service has a level 4 rating of record. Six months into the rating cycle the employee begins misfiling documents resulting in numerous classified documents that become lost in the filing system and are difficult to locate and retrieve. After the supervisor's communications of the deficiencies with the employee, the misfiling continues. The supervisor may initiate adverse action procedures without also going through any other performance process or procedure, even though the file clerk's most current rating of record is level 4.

f. Impact of conduct on performance appraisal. See reference (c), paragraph SC1940.8.4.4. An employee's attitude, actions, professional demeanor, and behaviors may positively or negatively impact individual, team, and/or organizational performance. The measure of unprofessional conduct or misconduct on the employee's performance rating will depend on its nature and seriousness, evidence of correction, degree of negative impact on the employee's performance expectations and/or the performance expectations of others, and any other

relevant factors. Even though unprofessional conduct or misconduct may be a measured factor of an employee's performance at the conclusion of the performance rating cycle, corrective and/or disciplinary action may still be taken to swiftly correct the behavior at the time of its occurrence. Effecting a timely disciplinary action for conduct that negatively affects performance does not negate the potential to reflect the impact of that conduct on the employee's performance appraisal. For example: An employee failed to complete a work assignment on time, despite several extensions. The supervisor may take immediate corrective action by issuing the employee a letter of reprimand for failure to carry out a work assignment. Even though action was taken, the matter can also be considered poor performance and used as a basis for determining the employee's year-end rating. Note, however, that misconduct and/or a record of disciplinary action does not in and of itself require a reduction in a performance rating: other circumstances can mitigate the impact of negative behavior on the employee's annual performance rating.

10. Performance Assessment and Recommendation Team (PART).

Authorized management officials may convene a Performance Assessment and Recommendation Team (PART) to make a clear and collective assessment of a workplace situation(s) and recommend a course(s) of action toward achieving greater organizational success. It is recognized that causation of performance issues can have multiple sources, including but not limited to employee competencies and motivation, supervisory methods, a lack of understanding of organizational goals and objectives, inefficient systems and methodologies, and other workplace obstacles. Utilizing a team approach for assessing individual, team and/or organizational performance inefficiencies can be an effective means to help address performance issues. Utilizing a PART may also be an effective means to assess and enhance individual, team and/or organizational effectiveness and identify and share best practices. For example: (1) A high performing employee may request that his supervisor convene a PART to assist him improve his performance methodologies and optimize his potential to progress through the pay band. (2) A supervisor may request that a PART be convened to help her assess and address a performance deficiency that is affecting the outcomes of one of her subordinates. (3) A pay pool manager asked that a PART be convened to identify the unusual success of a pay pool so that its best practices can be shared with other pay pools under his administration.

a. There is no prescribed formula or set of requirements to form or convene a PART.

b. A PART may be convened at any time.

c. The formation of a PART is not a right or requirement, merely a tool that may be used to assist in performance improvement throughout the organization.

d. Available resources may dictate the scope of utilizing this approach to performance improvement/development.

e. PART members. Each PART member should have subject matter expertise and/or other substantive input to provide relevant to the performance issue being assessed. PART members may include pay pool officials, technical subject matter experts, consultants, facilitators, mediators, supervisors, managers, and/or the employee(s). PART members may also include human resources consultants such as employee relations specialists, employee development specialists, and EEO specialists.

f. PART results and recommendations will be documented and provided to the responsible supervisory and/or rating official. As appropriate, the PART results may be associated with employee performance plans and/or individual development plans.

g. If indicated, participants in this process must be mindful of respecting sensitive information and protecting individuals' Privacy Act rights.

11. **End-of-Year Performance Assessments**. Supervisors should take the opportunity to carefully review and discuss the yearly accomplishment report with each employee. Supervisors must be prepared to discuss or provide written/documented support for each subordinates specific performance results before the pay pool panel. In turn, supervisors must be familiar with panel decisions and how those decisions were derived in order to communicate to an employee his/her final results. See paragraph SC1940.9 of reference (c).

12. **Rating Methodology**. This section supplements paragraph SC1940.10 of reference (c). In general, to determine a recommended rating, supervisors assess the employee's accomplishments relative to the employee's stated job objectives, assign a rating to each individual job objective, adjust the rating of each job objective based on the aggregate

impact (if any) of the associated contributing factors to the objective(s), and then round the average of all the adjusted ratings.

a. Job objectives. Each job objective is evaluated based on the employee's accomplishments, measures, and the application of the appropriate performance indicators for the employee's pay band. Based on the evaluation, the supervisor will assign a numerical score (1 to 5) to each job objective using Table SC1940-1 and the guidance in paragraphs SC1940.10.3.1 through SC1940.10.3.3 of reference (c). Descriptors for performance indicators are contained in Appendix 5 of reference (c).

b. Contributing factors. The contributing factors and their impact on the accomplishment of the job objective are evaluated using benchmark descriptors appropriate to the employee's pay schedule and pay band. Benchmark descriptors for contributing factors are contained in Appendix 6 and Table SC1940-2 of reference (c).

(1) Each job objective rating may be adjusted upwards or downwards by a total of one point only, or not adjusted (neutral) based on the supervisor's overall assessment of the employee's work behaviors described by each of the contributing factors associated with the job objective.

(2) When determining the combined impact that each contributing factor has on a job objective, the supervisor does not need to numerically score or average the impact of each factor, but instead should consider the overall or aggregate influence the contributing factors have on performance of the job objective that the employee demonstrated. This is termed the contributing factor assessment, and is expressed as +1, 0, or -1 for each job objective. Justification for the overall impact of the contributing factors should be part of the supervisor's narrative assessment.

c. Adjusted rating. The combination of a job objective and the contributing factor assessment results in an adjusted rating for each job objective.

(1) If job objectives were weighted, the same weights must be applied to the adjusted rating. See Appendix D of this guidance for the averaging procedure for weighted adjusted ratings.

(2) If a Level 1 score is assigned to any job objective, the overall recommended rating is required to be a Level 1 regardless of the rating or weighting on any other objective.

(3) If a job objective is scored at Level 1, the contributing factors cannot be used to adjust the rating to a Level 2.

(4) If a job objective is scored at Level 2, the contributing factors cannot be used to adjust the rating to a Level 1.

d. Recommended rating of record.

(1) The recommended rating of record will be the rounded average of all the adjusted ratings. When the average is .51 or higher, the rating is rounded up to the next whole number. When the average is .50 or lower the rating is rounded down to the next lower whole number (see chart in paragraph 12.g. of this guidance).

(2) The recommended rating of record is subject to higher-level review as dictated by pay pool policies or at the discretion of the pay pool manager.

e. Recommended share distribution and payout allocation. Recommendations for share distribution and payout allocation must be consistent with local pay pool policies. (Pay pool policies may set recommended share distributions and payout allocations consistent within the same pay band, pay schedule and career group within a pay pool.) Commands and large activities consisting of multiple pay pools should consider establishing consistent policies between all pay pools within their organization. Considerations in recommending share assignments may include factors such as complexity of the work, overall contribution to the mission of the organization, fiscal soundness, level of responsibility, level of performance relative to other employees in the same pay pool receiving the same overall rating, and other criteria consistent with merit system principles. The supervisor should document justification for the recommended share assignments. Considerations in recommending payout allocation may include factors such as:

(1) Availability of performance funds/fiscal soundness;

(2) Overall contribution to the mission of the organization;

(3) Current salary and level of complexity of work in comparison with others in similar work within the organization;

(4) Significant improvement in productivity and contribution over the rating cycle;

(5) Significant increase in skills and responsibilities with a demonstrated ability and potential to assume greater responsibilities during the next rating cycle.

(6) Other performance-based compensation received during the rating cycle associated with promotions, reassignments, or awards;

(7) Local market salary levels of comparable occupations in private sector and other government activities;

(8) Attrition and retention rates of personnel with critical skills shortage; and/or,

(9) Proximity to control points established for pay schedules and pay bands within the pay pool.

f. Special purpose rating of record. If an employee's performance improves for a significant period of time (e.g. no less than 90 days) after a Level 1 rating of record is assigned, a special purpose rating of record may be issued per the provisions of paragraph SC1940.10.8 and Appendix 4 of reference (c). This rating must reflect a substantial and sustained change in the employee's performance since the last rating of record was assigned. The additional rating, however, will not result in a performance payout and has no impact on pay, retroactive or prospective. Special purpose ratings of record must be made strictly for meritorious reasons based solely upon improved performance. For example: A supervisor may not change an employee's rating of record solely to improve an employee's retention standing for a pending reduction in force, or solely to permit an employee to obtain a pay increase resulting from an approved rate range adjustment.

g. Illustration of average rating range, rating levels and associated share range, eligibility for increases to local market supplement (LMS) and rate range adjustment (RRA), and rating descriptors.

RATING LEVELS AND ASSOCIATED SHARE RANGE

Average Adjusted Rating Range	Rating of Record	Share Range	Eligible for Increase to LMS/RRA	Rating of Record Descriptor
4.51 to 5.00	5	5 - 6	Yes	Role Model
3.51 to 4.50	4	3 - 4	Yes	Exceeds Expectations
2.51 to 3.50	3	1 - 2	Yes	Valued Performer
2.00 to 2.50	2	No Shares	Yes	Fair
1 on any objective	1	No Shares	No	Unacceptable

13. **Pay Pool Structure, Policy, and Procedures.** This section supplements paragraph SC1940.11 of reference (c). A notional timeline for NSPS pay pool process is contained in Appendix B of this guidance.

a. Pay Pool Management Oversight. Heads of Echelon 1 and 2 commands will establish, by charter, Performance Review Authority (PRA) or equivalent body appointments to specify pay pool management oversight lines of authority. Large activities may establish a local PRA. The PRA may consist of the activity commander, senior leadership, and pay pool managers (PPM) of the assigned workforce population. The PRA should include consultation membership from the human resources and financial management communities. The PRA will provide oversight in areas such as, but not limited to, the following:

(1) Composition of pay pools to ensure compliance with established guidelines and statutory requirements;

(2) Pay pool panel membership;

(3) Training and authorization requirements for pay pool and rating officials;

(4) Management of the civilian pay-for-performance budget and discretionary performance payout fund;

(5) Management of issues associated with multiple pay systems during conversion to NSPS;

(6) Issuing estimated share value(s) and subsequent adjustments, if necessary;

(7) Management of the pay-for-performance reserve fund, if any;

(8) Monitoring and adjusting pay pool fund distribution;

(9) Challenges to ratings of record;

(10) Review and/or approval of performance plans;

(11) Setting of consistent policy among pay pools for application of contributing factor selection procedures;

(12) Performance payout distribution policies and procedures;

(13) Trend assessment of overall personnel, performance management, pay administration policies and processes, and necessary modifications;

(14) Collection and assessment of local and higher headquarters management information reporting requirements; and

(15) Publication of any Notice to Employees (see paragraph 11.g of this guidance),

b. Pay Pool Composition. The membership of a pay pool is a group of employees who share in the distribution of a common pay-for-performance fund. Pay pool structure is a critical strategic element of managing organization mission performance and must consider the skills, work processes, workforce culture, and other aspects of the total business environment in its design. As such, care must be taken to create a structure which can best assess and recognize the performance of organizations

and/or communities which support the combined mission and goal achievement(s) within that total business environment.

(1) The pay pool and its structure may be redefined each performance cycle.

(2) All pay pool officials and raters will be management officials.

(3) Commands and activities that have employees on details or temporary promotions should develop procedures, based on the anticipated duration of the assignment, for determining the appropriate pay pool the employee should be assigned to and whether the permanent or temporary (gaining) supervisor should recommend the rating of record, share assignment, and payout distribution. See SC1940.AP1, Performance Assessments and Pay Adjustments for Specially Situated Employees, of reference (c).

c. Guidelines for Design of Pay Pool Composition. The pay pool structure may be created along organizational lines, career groups, employee job function, and/or organization mission. The composition of pay pools can also be determined by other groupings such as supervisors and non-supervisors, or by geographical location among different lines of business. Geographic co-location of pay pools is not required. Pay pools will be established considering business needs and merit system principles. Guidelines include, but are not limited to, the following:

(1) Organizational pay pool structure. Typically, pay pool structures are based on organizational structure. Organizational pay pools normally encompass a range of career groups, occupations, pay band levels, salaries, and performance levels. Pay pool panel membership typically consists of the senior managers within the chain of command. Within an organization structure, in some instances, the PRA Chair may consider establishment of pay pools for a community population, which may cross organization boundaries for approval. Organizational pay pools are recommended because this structure provides sufficient flexibility to the organization and allows challenges to ratings to be addressed within the normal management chain of command. This structure tends to be more readily accepted by local employee representatives, and is understood and accepted by employees.

(2) Supervisory pay pool structure. The supervisory/non-supervisory pay pool structure may be most

appropriate for a large organization that would have at least two levels of supervision so that the performance evaluation would be elevated beyond the immediate supervisory level for both the supervisory and non-supervisory pay pool. The supervisory pay pool should be large enough to constitute a reasonable statistical sample, (i.e., no less than 35 individuals when possible) and to produce adequate payout funds to reward employees appropriately. A supervisory pay pool that is composed of supervisors from various subdivisions of an activity would provide the opportunity for increased communication and organizational-wide knowledge exchange by the second-level supervisors particularly during a pay pool panel session.

(3) Geographical pay pool structure. A geographical pay pool would be structured by location, such as a district, base, camp, city or town, or installation. All DON employees within the location, regardless of activity or command would be included in this pay pool. Due to the various financial considerations, policy and guidance issuances, and missions, this structure may prove problematic and difficult to organize and administer.

(4) Functional pay pool structure. A functional pay pool structure is one established by occupational groups (e.g., all engineers), career groups (e.g., all professional science and engineering positions), and pay bands (e.g., all employees in pay band II of the professional science and engineering career group to name a few. This structure would require management/supervisory personnel to participate in multiple occupational specific pay pool panel meetings. It may also have panel members serving under different pay pool managers and internal processes. For instance, depending upon the amount of flexibility provided, the pay pool manager for an administrative support pay pool may institute different processes than the pay pool manager for physicians.

d. Pay pool size. Pay pools should consist of a number of personnel large enough to provide a pay pool fund adequate to distinguish levels of performance payouts consistent with levels of ratings.

(1) Recommended size. One of the Personnel Management Demonstration Project lessons learned is that the most useful pay pool size is between 50 and 150 employees. This size provides enough funds to adequately reward employees and yet ensures that the PPM and Panel can understand the work

processes, work products, and how the products contribute to the mission of the organization as well as have an in-depth knowledge of the employees' performance and contributions in relation to the mission. When pay pools are too large, the panel members tend to be too removed from the working level and have too little actual knowledge of what work is being done.

(2) Typical size. Typically, pay pools range from 35 to 300 employees. Commands have flexibilities in this area in order to be able to tailor the pay pool process to meet their varied organizational needs.

(3) Minimum size. Typically, pay pools should not be less than 35 employees. Where organizations exist of less than 35 employees, consideration should be given to combining populations of organizations reporting to the same next level manager. For instance, where field organizations may have only one or two employees these employees can be combined with employees at the next higher level and can be represented by their supervisor as a member of the pay pool panel. When a supervisor from a remote location cannot attend panel meetings in person, he/she may be included through video teleconference, telephone, etc.

(4) Sub-pay pool. Consideration should be given for pay pools of over 100 employees to adopt a sub-pay pool structure. See paragraph SC1940.11.1.2 of reference (c). In these instances, the PRA Chair may consider establishment of an additional layer of review (e.g., first level supervisors meet with organization manager who is the pay pool panel member to the final pay pool) to facilitate the final review at the final pay pool level. Sub-pay pools normally operate under the same requirements and guidelines provided to the pay pools to which they belong. Essentially, sub-pay pool manager determinations are recommendations that are submitted to the final pay pool for approval.

e. Restricted participation. Members of the PRA, the PPM, and PPP members will not participate in deliberations or decisions that directly impact their own performance ratings or performance payouts.

f. Notice to employees. To the extent that the information does not compromise the procedural neutrality or the confidentiality of participants (e.g., employees, supervisors, raters, reviewers, etc.), the following information will be available to employees. The release should preferably occur

within the first 90 days of the appraisal period, but not less than 90 days prior to the end of the appraisal period.

(1) Generally, upon commencement of each new appraisal cycle, but typically no later than 90 days after the beginning of the cycle, the PRA shall notify employees of each pay pool of the pay pool information cited in paragraph 1940.11.2 of reference (c).

(2) If extenuating circumstances exist that preclude notification of the pay pool information cited in paragraph 1940.11.2 of reference (c) within the first 90 days of the appraisal period, the PRA will notify employees as soon as practical thereafter, but no later than 90 days prior to the end of the appraisal period. As part of the notification, the PRA will inform employees as to the reasons for the delay, including mitigating actions taken, in communicating pay pool information.

(3) The notice will include pay pool policies and general determinations that impact pay pool funding, such as the policies for funding extraordinary pay increases and organizational/team achievements as part of the discretionary performance payout. The notice will include what (if any) supplemental funding will be provided for discretionary pay increases, and how incentive awards will be managed during the appraisal cycle.

14. **Performance Based Pay.** Appendix C of this guidance supplements paragraph SC1930.9 of reference (d) and provides guidance and procedures to help estimate share values and calculate the performance-based payout.

a. **Proration of payouts.** NSPS performance based payouts will be prorated based on hours worked to reflect (1) significant amounts of leave without pay (LWOP), except as provided in Appendix 1 of reference (c) about specially situated employees, (2) part time and intermittent employment, and/or (3) entry into a NSPS position from a non NSPS position as follows:

<u>Hours Worked</u>	<u>Percentage of Payout Paid</u>
1561 - 2087	100%
1041 - 1560	75%
521 - 1040	50%
minimum - 520	25%

b. Hours worked. For purposes of above computations, "Hours Worked" will include hours in an approved paid leave status in addition to actual hours worked.

c. Part time employment. In the case of prorating due to part time employment, only the performance based pay pool bonus will be prorated. "Number of hours worked" automatically prorates pay increases for part time employees.

15. Rating Official Qualifications. In order to recommend a rating of record for consideration by the pay pool panel, the rater must be adequately prepared through appropriate training in the basic elements of NSPS performance management. Each PRA may set specific training requirements to prepare and qualify rating officials, such as identifying on-line courses, classroom courses and/or self-study materials to acquire needed knowledge. PRA's may also set requirements for periodic refresher training or remedial training.

a. Per Appendix 3 of reference (c), PPM's will certify, in writing, that each rating official meets identified standards, before permitting him/her to recommend an employee's rating of record. Appendix E of this guidance provides an example of a rating official authorization program.

b. The PPM will approve and disapprove, as necessary, the qualifications of each rating official within his/her pay pool, in writing, with copy to the rating official and servicing human resources office, per the minimum qualification requirements discussed in Appendix 3 of reference (c). A disqualified rating official may be reauthorized in accordance with PPM or higher authority policy and procedures. Here are some examples of where a PPM may disqualify a rating official for failing to make meaningful distinctions in performance levels:

(1) Supervisor appears before the pay pool panel with all subordinates rated at Level 4 without sufficient supporting evidence or performance measures that indicate any employees exceeded expectations.

(2) Supervisor appears before the pay pool panel with some employees rated at Level 5 without compelling performance measures or records of accomplishments that warrant a Level 5 rating.

(3) Supervisor has identical job objectives and performance expectations for all subordinates, even though

substantial difference in salaries exist within the work group, and rates each employee at the Level 3 (i.e., supervisor does not establish higher performance expectations for subordinates with substantially higher salaries.)

c. PPM's or higher authority may establish policies to address how qualified rating officials will be assigned for employees who work in an environment where assignment to a supervisor is fluid, e.g. in a predominantly military environment, on shipyard rotational projects, etc. The PRA may set policies that allow the PPM to identify alternate rating officials who can provide stability to assume the duties of rating employees in such environments. In these instances, the alternate rating official must consider input from the employees' supervisors in recommending ratings and payouts.

16. Challenging the Rating of Record.

a. Policy. The reconsideration process described in paragraph SC1940.12 of reference (c) is the sole and exclusive method for employees to challenge his/her rating of record. Requests for reconsideration of a performance rating will be considered expeditiously, fairly, and impartially, and decided as quickly as possible.

b. Election when discrimination is alleged. Requests for reconsideration that contain an allegation of prohibited discrimination will not be processed through this procedure. Instead, employees will be asked, in writing, to make an election between the following options:

(1) Withdraw the allegation of discrimination and continue under the reconsideration process; or,

(2) Terminate the request for reconsideration and contact an EEO counselor in order to process the complaint through equal employment opportunity complaint procedures.

17. Recordkeeping. NSPS performance management records will be maintained consistent with the retention requirements of SECNAVINST 5212.5D for SSIC 12430, "Performance Management Records", except all ratings of record will be retained for a period of four years.

18. Reporting Results. Echelon I and II commands are responsible for ensuring their subordinate activities create a summary report of results after the annual performance payout.

For each performance cycle, activities should collect data for trend analysis on the estimated versus actual performance ratings, share distribution, payout allocation, pay increases that result from reassignments, pay, and increases due to promotions. Activities should also track and report the number of employees who request reconsideration of their ratings of record and the outcome of such requests. This data should be used to facilitate estimating share values for subsequent year performance cycles. Major commands will forward a summary report of results within their command to the Deputy Assistant Secretary of the Navy, Office of Civilian Human Resources, Code 012. Results reported to the DASN will be used to track effectiveness and consistency across DON.

19. **Action.** Commands, activities and individuals with responsibilities shall take necessary actions to implement this guidance.

APPENDIX A

SPECIAL MATTERS TO BE CONSIDERED IN PERFORMANCE EVALUATIONS

1. Purpose. Specific provisions of law, regulation, and DOD policy require certain matters to be considered in the performance evaluations of some employees. This does not require the establishment of specific job objectives for the special matter. If applicable, rating officials need to reflect that these requirements were considered when documenting performance assessments.

2. DoD Performance Evaluation Requirements.

a. Audit Follow-Up. Performance evaluations of appropriate managers must reflect the degree of effectiveness in addressing audit findings and recommendations and implementing agreed-upon corrective actions as required by Office of Management and Budget (OMB) Circular A-50, "Audit Follow-Up," September 29, 1982. This requirement applies to audits conducted by the General Accounting Office (GAO) and the DoD Inspector General. This requirement is established in paragraph 5.5.4 of DoD Directive 7650.3, "Follow-Up on General Accounting Office, DoD Inspector General, Internal Audit Reports," April 9, 1999.

b. Management Control. Performance evaluations of managers who have significant Management Control (MC) responsibilities must reflect the accountability for the success or failure of MC practices. This requirement is established in paragraph E2.1.9 of DoD Directive 5010.38, "Management Control Procedures Program," August 28, 1996.

c. Equal Employment Opportunity (EEO). Performance evaluations of supervisors, managers, and other personnel with EEO responsibility must have a critical element on EEO if covered by 5 U.S.C. Chapter 43 per paragraph E.2.f of DoD Directive 1440.1, as amended, "DoD Civilian Equal Employment Opportunity (EEO) Program," May 21, 1987. However, NSPS waives 5. U.S.C. Chapter 43; NSPS does not require performance plans to contain a specific EEO job objective.

d. Inventory Management. Performance evaluations of individuals employed at Inventory Control Points must give appropriate consideration to efforts made by these

individuals to eliminate wasteful practices and achieve cost savings in the acquisition and management of inventory items. This requirement is established in section 2458 of Title 10, United States Code.

e. Regulatory Reinvention. Performance measurements of persons who are frontline regulators, i.e., those who have authority to order a corrective action or levy a fine on a business or other government entity, must focus on results, not process and punishment. Therefore, such measures should not be based on process (e.g., number of visits to a business or government entity) or punishment (e.g., number of violations found, number of fines levied on a business or government entity). A Presidential Memorandum for heads of Federal departments and agencies, "Regulatory Reinvention Initiative," March 4, 1995, establishes this requirement.

f. Classified Information Management. The performance ratings of civilian employees who are original classification authorities, security managers or security specialists, or significantly involved in the creation or handling of classified information must include the management of classified information as an item to be evaluated. This requirement is established in section 5.6. (c) (7) of Executive Order 12958, "Classified National Security Information," April 17, 1995.

g. Safety. Responsible DoD officials at each management level, including first level supervisors, must to the extent of their authority, comply with the DoD Occupational Safety and Health program guidance and regulations. Performance evaluations of those employees must reflect personal accountability in this respect, consistent with the duties of the position, with appropriate recognition of superior performance, and conversely, with corrective administrative action, as appropriate, for deficient performance. This requirement is established in E8.1.1 to DoD Instruction 6055.1, "DoD Occupational Safety and Health Program," August 19, 1998.

APPENDIX B
NOTIONAL NSPS PAY POOL PROCESS TIMELINE

PERFORMANCE APPRAISAL RATING PERIOD		
October	November	December
<ul style="list-style-type: none"> • Supervisor closes out previous rating cycle • Supervisor develops new performance plan • Higher-level reviews performance plan(s) • Supervisor communicates plan to each employee • PRA issues new cycle "Notice to Employees" • Monitor performance, provide feedback, document 	<ul style="list-style-type: none"> • Monitor performance, provide feedback, make course corrections, document 	<ul style="list-style-type: none"> • Monitor performance, provide feedback, make course corrections, document • Supervisor communicates approved rating and payout results from previous appraisal period to each employee, provides performance feedback based on rating
January	February	March
<ul style="list-style-type: none"> • Monitor performance, provide feedback, make course corrections, document • Payout for previous appraisal period 	<ul style="list-style-type: none"> • Monitor performance, provide feedback, make course corrections, document 	<ul style="list-style-type: none"> • Monitor performance, provide feedback, make course corrections, document
April	May	June
<ul style="list-style-type: none"> • Monitor performance, provide feedback, make course corrections, document • Formal interim review (mandatory) 	<ul style="list-style-type: none"> • Monitor performance, provide feedback, make course corrections, document 	<ul style="list-style-type: none"> • Monitor performance, provide feedback, make course corrections, document
July	August	September
<ul style="list-style-type: none"> • Monitor performance, provide feedback, make course corrections, document 	<ul style="list-style-type: none"> • Monitor performance, provide feedback, make course corrections, document • Supervisors obtain feedback on employee performance from other raters, closeout assessments, etc. 	<ul style="list-style-type: none"> • Monitor performance, provide feedback, make course corrections, document • Supervisor prepares new performance plans • Notifies employees to prepare self-assessments • Obtain employee feedback on new performance plans • Supervisors evaluate feedback/closeouts on employee performance

APPENDIX B
NOTIONAL NSPS PAY POOL PROCESS TIMELINE

PAY POOL PANEL DELIBERATION PERIOD		
October	November	December
<ul style="list-style-type: none"> • Employee self-assessments submitted to supervisor • Supervisor submits recommended ratings, share distribution, and payout allocation to PPP • Pay pool panel (PPP) reviews/reconciles recommended ratings 	<ul style="list-style-type: none"> • Pay pool panel (PPP) and pay pool manager (PPM) reviews/reconciles recommended ratings • Pay pool manager (PPM) reconciles differences between funds allocated from estimated share value calculation, actual pay pool budget, and projected expenditure based on performance shares distributed • PRA review and concur ratings and payout conducted per established guidelines and statutory requirements 	<ul style="list-style-type: none"> • PPM approval of ratings of record, share distribution, and payout allocation • Supervisor communicates approved rating and payout results to each employee, provides performance feedback based on rating • Payouts processed for first pay period in January per DoD issuance

APPENDIX C
PROCEDURES TO DETERMINE PERFORMANCE PAYOUTS

1. Elements of the Pay Pool Fund. The Pay Pool Fund is composed of three elements that are expressed as percentages.

Element 1: Basic pay funds that were historically spent on within grade increases, quality step increases, and promotions between General Schedule grade levels that no longer exist under NSPS. DoD will establish and periodically adjust the minimum Element 1 funding floors. Heads of Echelon 1 and 2 commands will establish, by charter, direction to set funding floors for basic pay increases that are at least equal to the DoD funding floor. *The funds associated with Element 1 are available to the Pay Pool Fund for increases to basic pay only. If an employee is earning at, or above, the market pay for the position occupied the performance award should normally be distributed as cash bonus, however in the aggregate all of the Element 1 funds must be spent on increases to basic pay within the pay pool.*

Element 2: Funds that remain available (if any) from the government-wide general pay increase after the Secretary of Defense has exercised authority to fund any rate range adjustment and/or local market supplements. The funds associated with Element 2 are available to the Pay Pool Fund for increases to basic pay and/or cash bonus.

Element 3: Funds spent for performance-based cash awards. The funds associated with Element 3 are available only for cash bonuses. Commands will continue to budget 1.5 percent of salaries for awards/bonuses. It is recommended that 1.0 percent be put in the pay pool fund and 0.5 percent be retained for recognition throughout the year, e.g. for special act awards, on-the-spot awards, and informal recognition. Commands may vary from these recommendations in accordance with organizational priorities, culture and business-based factors.

Heads of commands and activities may allocate additional funds to any element of the Pay Pool Fund.

APPENDIX C Cont
PROCEDURES TO DETERMINE PERFORMANCE PAYOUT

2. Calculate the Value of the Pay Pool Fund. The dollar value of the pay pool fund is calculated as follows:

a. Determine the sum of the base salaries of all the employees in the pay pool on the last day of the pay pool appraisal period.

b. Determine sum of the percentages of Elements 1, 2, and 3.

c. Multiply the sum of the base salaries by the sum of the percentages of the elements of the pay pool fund.

d. Example: The sum of base salaries of Pay Pool "X" is \$4,500,000. Element 1 = 2.2%, Element 2 = 0.5%, and Element 3 = 1.0%. The value of the Pay Pool Fund "X" will be:

$$\$4,500,000 \times 0.037 = \$166,500$$

(This amount must be partitioned into pay and bonus components.)

3. Calculate estimated share value. Organizations will establish an estimated share value, expressed as a percentage of employee salary, for use in budget and compensation planning. This estimate may have to be adjusted either up or down by the PRA during the final reconciliation process to ensure that total payouts do not exceed available funding. In no case will the estimated share value be used as a mechanism to dictate or constrain performance ratings. The PRA may establish a separate pay pool reserve fund, from appropriate sources other than the pay pool fund itself, to facilitate the reconciliation process for situations where applying the estimated share value would result in over expending the pay pool fund. Pay pool managers should determine or estimate factors that could influence the estimated share value, such as:

a. Anticipated distribution ranges of performance ratings and share assignments within the workforce.

b. Overall budget resources that will need to be allocated based on calculated values of Pay Pool Fund(s).

APPENDIX C Cont
PROCEDURES TO DETERMINE PERFORMANCE PAYOUTS

c. Compensation philosophy of the organization, such as:

- (1) Maximum payout to an employee (highest rated employees receive a maximum/minimum increase of x%)
- (2) Minimum payout to an employee (lowest rated employees receive a minimum increase of y%)

d. There are a number of methods that activities can use to estimate share value, as discussed in paragraph SC1930.9 of reference (c). The distribution of prior year's performance ratings and share distributions will normally be the primary source of data. Commands and activities should exercise care so not to underestimate share value. Several examples are provided.

Example A: Estimate of the share value that is based on an estimate of the average shares per person awarded in the pay pool.

The percentage elements (Element 1, 2 and 3) of the pay pool funds for Pay Pool "X" sum to 3.7%. It is estimated that an average of 2.75 shares will be awarded to employees. The estimated pay pool share value is:

Available funds / Shares awarded =

3.7% / 2.75 shares per person =

1.345 % per share

Example B: Estimate of the share value that is based on estimates of the anticipated rating distributions within the pay pool.

Pay Pool Information. Pay Pool "X" has 75 employees with a base salary summation of \$4,500,000. The average salary of an employee in the pay pool is \$60,000. The Pay Pool Fund "X" has been calculated at \$166,500. The anticipated distribution of ratings within Pay Pool "X" is 8% at Level 1 or Level 2, 60% at Level 3, 24% at Level 4, and 8% at Level 5.

APPENDIX C Cont
PROCEDURES TO DETERMINE PERFORMANCE PAYOUTS

(The below calculations assume the previous method of determining Total Salary Share Product and Pay Pool Share Value (PPSV) is still valid. If the calculation model has changed the examples need to be changed to reflect the model that will be used.)

Example B: (continued) Estimate of the share value based on an estimate of the expected rating distribution within the pay pool.

Rating Level	Estimated Number of Employees		Estimated Share Distribution	
	Calculation	At rating level		
5	75 x 0.08	6	5 shares	6 Shares
			5 x 5 = 25	1 x 6 = 6
4	75 x 0.24	18	3 Shares	4 Shares
			15 x 3 = 45	3 x 4 = 12
3	75 x 0.60	45	1 Share	2 Shares
			40 x 1 = 40	5 x 2 = 10
Total Number of Shares Distributed			138 shares	

The formula for estimating the Pay Pool Share Value is:

$$\text{Pay Pool Share Value} = \frac{\text{Pay Pool Fund Amount}}{\text{Total Salary Share Product}}$$

Calculate the estimated Total Salary Share Product:

$$\text{Employee Salary Share Product} = \text{Employee Salary} \times \text{Number of Shares Awarded to the Employee}$$

The base salary of each employee is multiplied by the number of shares awarded to that employee. The Salary Share Product for individual employees in the pay pool is summed to determine the Total Share Product in dollars (\$).

For this example, the calculation is simplified by assuming an accurate estimate may be obtained by considering all employees in the Pay Pool "X" earn the average salary of \$60,000. The Total Salary Share Product can then be estimated: \$60,000 x 138 shares = \$8,280,000

APPENDIX C Cont
PROCEDURES TO DETERMINE PERFORMANCE PAYOUTS

Example B: (continued) Estimate of the share value based on an estimate of the expected rating distribution within the pay pool.

Calculate the estimated Pay Pool Share Value:

$$\text{Pay Pool Share Value} = \frac{\text{Pay Pool Fund Amount}}{\text{Total Salary Share Product}}$$

$$\text{PPSV} = \$166,500 / \$8,280,000 = 0.0201 = 2.01\% \text{ per share}$$

3. Calculation of the Performance Payout. The actual share value of the pay pool fund is calculated after all employees have received their final approved rating of record and share distribution. A simplified example of the performance payout follows:

Pay Pool "Y" has 9 employees with current salaries, and final ratings, and share distribution as shown. The percentage elements for the Pay Pool Fund total 3.7%.

Employee	Salary	Rating of Record	Share Distribution	Salary Share Product
1	\$32,000	3	1	\$32,000
2	\$44,000	4	3	\$132,000
3	\$52,000	3	2	\$104,000
4	\$53,500	3	1	\$53,500
5	\$68,500	3	2	\$137,000
6	\$72,000	4	4	\$288,000
7	\$74,000	5	5	\$370,000
8	\$95,000	2	0	0
9	\$110,000	3	2	\$220,000
Total Base Salaries		\$601,000		
Total Salary Share Product		\$1,336,500		
Total Shares Distributed		20		

$$\text{Pay Pool Share Value} = \frac{\text{Pay Pool Fund Amount}}{\text{Total Salary Share Product}}$$

$$\text{Pay Pool Fund Amount} = \$601,000 \times 0.037 = \$22,237$$

$$\text{Pay Pool Share Value} = \$22,237 / \$1,336,500 = 0.01664 = 1.664\%$$

APPENDIX C Cont
PROCEDURES TO DETERMINE PERFORMANCE PAYOUTS

If the estimated number of shares to be distributed was less and/or the PPSV is less than this value, such that insufficient funds were initially budgeted, the PRA would need to reconcile the difference by either providing additional funds to the Pay Pool Fund or adjusting the PPSV lower.

4. Determining Payout Distribution. Recommending or determining the appropriate distribution of the payout between a base salary increase and/or a bonus has a long-term financial impact on the organization. The following supplemental guidance is provided in addition to SC300.5.7.1 of reference (c).

a. Performance-based compensation received during the rating cycle associated with promotions, reassignments, or awards. Under NSPS, supervisors are allowed to reassign employees to other positions within the pay band with a pay increase of up to 5-percent in base salary. Managers should understand the fiscal impact of reassignments on the organization's overall budget, particularly in relation to Element 1 of the Pay Pool Fund. Element 1 includes funds that were historically spent on promotions that previously occurred in the General Schedule that under NSPS, in many cases, are considered reassignments. NSPS requires Element 1 funds to be set aside (at the DoD designated minimum funding floor) and paid out to employees in the pay pool as base salary increases as part of the performance award. Organizations must budget separately from the pay pool fund for reassignments that will result in a salary increase for employees. The funding impact of promotions between pay schedules and pay bands must be understood. Generally, promotions have a minimum or neutral effect on the budget as most promotions compensate for attrition. Promotions into newly created positions must be carefully considered for financial impact to the overall pay pool process.

b. Overall contribution to the mission of the organization. The PRA and/or pay pool manager may elect to allow the percentage of payout that is allocated to base salary increases to differ between positions, as long as the criterion by which shares are assigned to individual employees is applied consistently to similar positions in the same pay band and career group.

c. Current salary and level and complexity of work performed in comparison with others in similar work assignments. Before recommending an increase in base salary the supervisor should compare the employee's current salary with others performing similar work assignments in the pay pool at a comparable complexity of work. Salary increases should only be recommended if:

(1) The employee is currently being paid less than others who are performing similar work assignments at a comparable complexity; or,

(2) The employee substantially outperforms others who are performing similar work assignments at a comparable complexity, such that work unit operates more efficiently, accomplishes work unit goals and objectives with less resources/personnel as a result of the higher performance; or,

(3) The employee was reassigned earlier in the rating cycle to higher-level duties and responsibilities without a corresponding increase in salary, and the employee's level of performance for a sufficient period of time warrants an increase in base salary.

d. Local market salary levels of comparable occupations in private sector and other government activities. The supervisor must consider the local market supplement in addition to basic pay before recommending a salary increase because of salary comparisons with private sector or other government activities. As part of the recommendation the supervisor must demonstrate to the pay pool panel that the current salary disparity has a negative business impact (i.e., excessive attrition, high turnover, sustained loss of efficiency, etc.) on the work unit and/or organization.

e. Availability of funds. Supervisors and managers must understand the elements of the Pay Pool Fund, what budget exists for salary increases for their work unit, and any guidance or procedures issued by the pay pool manager regarding the distribution of the payout within the pay pool before determining how to distribute the payout for employees in their work unit.

Appendix D
Averaging Procedure for Weighted Adjusted Ratings

Calculation and influence of weights on the adjusted ratings.

Formula: $(W_1 \times R_1) + (W_2 \times R_2) + (W_3 \times R_3) + \dots (W_n \times R_n)$

Where, W = weights, such that

$$W_1 + W_2 + W_3 + \dots W_n = 1.00$$

R = adjusted rating

n = number of objectives assigned

Example A: Adjusted ratings for job objectives are weighted as follows:

Objective	Adjusted Rating (R)	Weight (W)
1	2	0.45
2	2	0.45
3	5	0.10

The weighted average of the adjusted ratings is:

$$(0.45 \times 2) + (0.45 \times 2) + (0.10 \times 5) = 2.30$$

Example B: Adjusted ratings for job objectives are weighted as follows:

Objective	Adjusted Rating (R)	Weight (W)
1	2	0.10
2	2	0.10
3	5	0.80

The weighted average of the adjusted ratings is:

$$(0.10 \times 2) + (0.10 \times 2) + (0.80 \times 5) = 4.40$$

Example C: Adjusted ratings for job objectives are weighted as follows:

Objective	Adjusted Rating (R)	Weight (W)
1	2	0.55
2	3	0.10
3	3	0.25
4	4	0.10

The weighted average of the adjusted ratings is:

$$(0.55 \times 2) + (0.10 \times 3) + (0.25 \times 3) + (0.10 \times 4) = 2.55$$

APPENDIX E

NSPS Rating Official Authorization (Notional)

Background Under the National Security Personnel System (NSPS), only management officials who have completed training and/or experience in the basic elements of NSPS performance management, and who demonstrate acceptable execution of performance management duties, will be permitted to recommend a rating of record for NSPS payout purposes to the pay pool for consideration.

Rating Official Authorization Requirements/Documentation Managers and supervisors (including military supervisors) must complete the training and/or possess the experience described below in order to meet rating official authorization requirements. Pay pool managers and pay pool panel members must complete rating official authorization. Upon completion, the following courses will be documented in the manager/supervisor DCPDS record:

Course Title	DCPDS Code
Performance Management For Supervisors/Managers	NSPAS
HR Elements For Supervisors, Managers, Employees	NSPBE
Pay Pool Training (Pay Pool Officials)	NSPES

Equivalent Experience or Training Equivalency as a rating official may be granted if sufficient experience was previously obtained under a pay for performance personnel system in the Federal service. Pay pool managers will review and approve requests for equivalency. If the pay pool manager deems the experience equivalent to NSPS training the following courses, as appropriate, may be documented in the civilian manager/supervisor DCPDS record:

Course Title	DCPDS Code
Equiv Exp - Performance Management (Supervisor)	NSPAS
Equiv Exp - HR Elements For Supervisors, Managers	NSPBE
Equiv Exp - Pay Pool Training (Pay Pool Officials)	NSPES

New supervisors must complete the above training, or equivalent courses approved by the pay pool manager, and obtain pay pool manager authorization as a rating official prior to recommending performance ratings to the pay pool panel.

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NSPS Rating Official Authorization (Notional) (Notional),

Continued

Rating Official Authorization Requirements/ Documentation	<p><u>Rating Officials will:</u></p> <ol style="list-style-type: none">1. Complete required training prior to rating employees.2. Provide documentation to pay pool manager; or3. Document previous experience as rating official under a pay-for-performance system. <p><u>Pay Pool Managers will:</u></p> <ol style="list-style-type: none">1. Complete required rating official training and provide documentation to the Performance Review Authority.2. Ensure all rating officials and pay pool panel members in the pay pool have completed required training and/or have required experience.3. Issue written authorization of rating officials and pay pool panel members.4. Maintain documentation of rating official training/experience and authorization.5. Recommend action to correct unacceptable execution of performance management duties practiced by rating officials.6. Suspend authorization to act as rating official for those supervisors or managers who do not maintain rating official authorization or, when necessary, to correct unacceptable execution of performance management duties. <p>Pay Pool Managers will certify in writing that each rating official meets the Department of the Navy rating official qualification requirements. PPM retains original authorization. A copy is provided to the rating official and the servicing Human Resources Office/Service Center for filing in the Official Personnel File. A sample authorization document follows.</p>
Decertification of Rating Official	<p>To maintain rating official authorization, rating officials, at a minimum, must demonstrate acceptable execution of performance management duties. The authorization to act as a rating official may be suspended indefinitely by the pay pool manager or other authorized management official. Pay Pool Managers will decertify rating officials in writing. A copy of the disqualification will be provided to the rating official, the rating official's supervisor, and the civilian rating official's servicing Human Resources Office/Service Center for filing in the Official Personnel File.</p>

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NSPS Rating Official Authorization (Notional) (Notional), Continued

(Date)

MEMORANDUM

From: Pay Pool Manager

Subj: Authorization of NSPS Rating Official Qualifications

Ref: DON Interim Guidance, "Performance Management" of May 2006

1. This document certifies that the rating official named below has met Department of the Navy qualifications to execute performance rating official duties under NSPS as indicated:

Rating Official Name: _____ SSN: _____

☐ Rating official has completed the training in the basic elements of NSPS performance management and meets requirements to recommend a rating of record for NSPS payout purposes to the pay pool.

☐ Rating official has completed equivalent training and/or experience in a Federal service pay-for-performance system and meets requirements to recommend a rating of record for NSPS payout purposes to the pay pool.

☐ Rating official is not authorized to recommend a rating of record for NSPS payout purposes to the pay pool. (Identify qualification(s) not met): _____

☐ _____

2. Point of contact is: XXXXXX .

(signature)
PAY POOL MANAGER

Copy to:
Rating Official
Human Resources Office/Service Center